

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE)	
FUEL ADJUSTMENT CLAUSE OF KENTUCKY	)	CASE NO.
POWER COMPANY FROM NOVEMBER 1, 2012	)	2014-00450
THROUGH OCTOBER 31, 2014)	

ORDER

Pursuant to 807 KAR 5:056, the Commission, on February 5, 2015, established this case to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Kentucky Power Company ("Kentucky Power") for the period from November 1, 2012, through October 31, 2014, and to determine the amount of fuel costs that should be transferred into, or out of, its base rates to re-establish its FAC factor.

In establishing this review, the Commission ordered Kentucky Power to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. Kentucky Power submitted this information on February 25, 2015. The Attorney General of the Commonwealth of Kentucky, through his Office of Rate Intervention ("AG"), and Kentucky Industrial Utility Customers, Inc. ("KIUC") requested and were granted full intervention. On March 9, 2015, the Commission issued a procedural schedule which provided for discovery, intervenor testimony, and rebuttal testimony of Kentucky Power. The Commission issued an Order on March 24, 2015, which scheduled a hearing for June 2, 2015.

On May 8, 2015, the parties to this proceeding filed a joint motion for partial stay (“Motion”) in which the parties requested that that the Commission stay the portion of the case relating to the allocation of Kentucky Power's fuel costs between native load customers and off-system sales. The Motion stated that the parties had agreed to settle the issues relating to the allocation of fuel costs between native load customers and off-system sales beginning January 1, 2014, and that the settlements were contingent upon the Commission's Order in Kentucky Power's then-pending rate case, Case No. 2014-00396.¹ Because an Order in the rate proceeding was expected to be issued after the scheduled June 2, 2015 hearing in this proceeding, and because the Commission's Order in the rate case could resolve all issues in this case relating to the allocation of fuel costs, the parties requested that the Commission stay the portion of this proceeding relating to the allocation of those fuel costs until such time as the Commission's Order in Case No. 2014-00396 became final and non-appealable. The Commission granted that motion on May 18, 2015. A public hearing was held on June 2, 2015. On June 16, 2015, Kentucky Power filed a post-hearing data response to questions asked at the hearing. Commission Staff issued a third request for information to Kentucky Power on July 10, 2015, to which Kentucky Power responded on July 17, 2015.

¹ Case No. 2014-00396, *Application of Kentucky Power Company for: (1) A General Adjustment of its Rates for Electric Service; (2) An Order Approving Its 2014 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; and (4) An Order Granting All Other Required Approvals and Relief* (Ky. PSC June 22, 2015).

Base Fuel Cost

Kentucky Power is proposing to decrease the amount of fuel costs included in base rates.² Kentucky Power proposes that the month of October 2014 be used by the Commission as the base period for the purpose of arriving at the base fuel cost and the kilowatt hour (“kWh”) sales components of its FAC. It further proposes that its base fuel cost be changed to 27.25 mills per kWh, the fuel cost for the proposed base period. Given that Kentucky Power’s current base fuel cost is 28.40 mills per kWh, the proposal would result in a decrease of 1.15 mills per kWh.

In making its proposal, Kentucky Power states that it examined both historic and projected fuel costs and took into consideration the following changes in its generation resources: the December 31, 2013 termination of the American Electric Power East Interconnection Agreement; the transfer of the 50 percent undivided interest in the Mitchell Generating Station (“Mitchell”); the retirement of Big Sandy Unit 2 in May 2015; and the future conversion of Big Sandy Unit 1 to a natural gas-fired unit. Because of these changes, Kentucky Power focused on forecasted fuel costs for calendar years 2015 and 2016 when determining the base month to be used for the purpose of arriving at its base fuel cost. Kentucky Power states that, during 2014, October fuel costs had the smallest differential above its projected fuel costs.³

² Kentucky Power last made a change to the fuel cost included in base rates in Case No. 2008-00518, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2006 through October 31, 2008* (Ky. PSC May 27, 2009).

³ Revised Direct Testimony of John A. Rogness at 8.

In establishing the appropriate level of base fuel cost to be included in Kentucky Power's rates, the Commission must determine whether the proposed base period cost per kWh is representative of the level of fuel cost currently being experienced by Kentucky Power. The Commission's review of Kentucky Power's generation mix, generation unit outages, and generation unit availability discloses that the month of October 2014 is a reasonably representative generation month for Kentucky Power. The analysis of Kentucky Power's monthly fuel clause filings showed that the fuel cost billed for the two-year review period ranged from a low of 21.68 mills per kWh to a high of 37.76 mills per kWh, with an average cost billed for the period of 31.08 mills per kWh. Based upon this review and a review of the recent changes to Kentucky Power's generation mix, the Commission finds that the proposed base period fuel cost of 27.25 mills per kWh should be approved.

Fuel Costs Allocation Methodology

In Kentucky Power's most recent six-month FAC review proceeding, Case No. 2014-00225,⁴ the Commission determined that Mitchell "no load costs" incurred during the period January 1, 2014, through May 31, 2015, in which Kentucky Power operated both Mitchell and Big Sandy Unit 2 ("the Overlap Period") should be disallowed for recovery through its FAC. The Order in that proceeding directed Kentucky Power to cease including Mitchell "no load costs" in the calculation of its FAC and stated that Mitchell "no load costs" recovered through the FAC since the end of that review period should be disallowed in future FAC review proceedings. For the six-month review period in Case No. 2014-00225

⁴ Case No. 2014-00225, *An Examination of the Application of the Fuel Adjustment Clause of Kentucky Power Company from November 1, 2013 through April 30, 2014* (Ky. PSC Jan. 22, 2015).

ended on April 30, 2014, the Commission directed Kentucky Power to credit \$13,155,170.15 in Mitchell “no load costs” to its customers.

As previously stated, the parties to this proceeding entered into settlements related to Kentucky Power’s fuel-cost allocation methodology, and those settlements were contingent upon the Commission’s Order in Case No. 2014-00396. The Commission approved the Settlement Agreement (“Settlement”) filed in Case No. 2014-00396 with modifications; however, those modifications were unrelated to the fuel-cost allocation methodology. The Settlement in Case No. 2014-00396 allows Kentucky Power to allocate fuel costs as it has done historically, as described in paragraph 11(e) of the Settlement, following the end of the Overlap Period. As requested in the Settlement, the Commission’s June 22, 2015 Order directed Kentucky Power to begin refunding \$17,877,704.95 of Mitchell “no load costs” for the period May 2014 through October 2014 rather than waiting to address such refunds in this proceeding.⁵ That Order is now final and non-appealable. Therefore, the Commission finds that there are no remaining issues to be addressed in this proceeding related to Kentucky Power’s fuel-cost allocation methodology.

PJM Interconnection, Inc. (“PJM”) Billing Line Items

In its January 22, 2015 Order in Case No. 2014-00225, the Commission stated that, in the next FAC review proceeding covering the two-year period November 1, 2012, through October 31, 2014, it would examine the issue of regional transmission organization (“RTO”) billing codes and the appropriateness of their inclusion in the FAC calculation for those utilities that are RTO members. As a result, in the instant proceeding, Kentucky Power has filed testimony and responded to discovery on the issue. Kentucky Power

⁵ The Commission ordered Kentucky Power to credit \$2,979,617.49 to customers through the FAC for the first six FAC filings made subsequent to the date of the Order in that proceeding.

states that it includes the following PJM billing line items in the calculation of its FAC:

1200 – Day-ahead Spot Market Energy

1205 – Balancing Spot Market Energy

1220 – Day-ahead Transmission Losses

2220 – Transmission Losses Credit

1225 – Balancing Transmission Losses

1420 – Load Reconciliation for Transmission Losses

2420 – Load Reconciliation for Transmission Losses

According to Kentucky Power, PJM billing line items 1200 and 1205 relate to spot market energy purchase amounts allocated to internal load and that the remaining five PJM billing line items relate to marginal line losses and credits.⁶ Kentucky Power states that, for internal load, the marginal line losses and credits are billed and recovered through the FAC in accordance with the Commission's June 12, 2008 Order in Case No. 2007-00522.⁷ When asked why it does not include other PJM billing line items in its FAC calculation, Kentucky Power stated that the other items are recovered in base rates.⁸

Power Purchases

In Case No. 2014-00225, Kentucky Power's most recent six-month FAC review proceeding, the Commission disallowed \$83,720.76 in power purchases that were in

⁶ Response to Item 38 of the Commission's February 5, 2015 Request for Information.

⁷ Case No. 2007-00522, *An Examination of the Application of the Fuel Adjustment Clause Of Kentucky Power Company from May 1, 2007 Through October 31, 2007* (Ky. PSC June 12, 2008).

⁸ Response to Item 7.b. of Commission Staff's Second Request for Information.

excess of the “Peaking Unit Equivalent”⁹ during the six-month review period November 2013 through April 2014. When questioned in this proceeding about power purchases for the review period May 2014 through October 2014, Kentucky Power responded that it had recovered \$94,945 of purchased-power costs in excess of its “peaking unit equivalent” for the May 2014 expense month, but that it credited this amount back to customers through the FAC in the October 2014 expense month.¹⁰ According to Kentucky Power, there were no purchased power costs that required exclusion from the FAC due to the peaking unit equivalent during the period November 2012 through October 2013.¹¹ Therefore, the Commission finds there are no additional purchased-power costs to be refunded for the two-year review period.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Outside of the issues addressed in previous Commission Orders for the two-year review period, Kentucky Power has complied with the provisions of 807 KAR 5:056 during the period under review.
2. Kentucky Power’s proposal to use the month of October 2014 as the base period should be approved.
3. Kentucky Power’s proposed base period fuel cost of 27.25 mills per kWh should be approved.

⁹ Kentucky Power has been granted authority to use the “peaking unit equivalent” approach to calculate the level of non-economy purchase power costs to recover through the FAC. The peaking unit equivalent is based on the operating characteristics of a General Electric simple-cycle gas turbine.

¹⁰ See Informal Conference memorandum filed May 29, 2015, attachment Question 3.

¹¹ Response to Item 3 of Commission Staff’s Third Request for Information.

4. The establishment of a base fuel cost of 27.25 mills per kWh requires a transfer (roll-out) of 1.15 mills per kWh of fuel costs from Kentucky Power's base rates.

5. The rates in the Appendix to this Order are designed to reflect the transfer (roll-out) of 1.15 mills per kWh from base rates, which is the differential between the old base fuel cost of 28.40 mills per kWh and the new base fuel cost of 27.25 mills per kWh.

6. The rates in the Appendix to this Order are fair, just, and reasonable and should be approved effective with Kentucky Power's first billing cycle for October 2015.

7. Beginning with the expense month of October 2015, Kentucky Power should use an FAC rate based upon a base fuel cost of 27.25 mills per kWh.

8. The PJM billing line items included by Kentucky Power in its FAC calculation should be approved, subject to the limitation of power purchase recovery to Kentucky Power's "peaking unit equivalent."

9. Kentucky Power should make no change to the PJM billing line items included in the calculation of its FAC without Commission authorization.

IT IS THEREFORE ORDERED that:

1. Outside of the issues addressed in previous Commission Orders for the two-year review period, the charges and credits applied by Kentucky Power through the FAC for the period from November 1, 2012, through October 31, 2014, are approved.

2. Kentucky Power's proposed base fuel cost of 27.25 mills per kWh is approved.

3. Kentucky Power shall transfer (roll-out) 1.15 mills per kWh of fuel costs from its base rates.

4. The rates in the Appendix to this Order are approved effective with Kentucky Power's first billing cycle for October 2015.

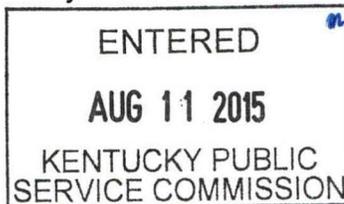
5. Beginning with the expense month for October 2015, Kentucky Power shall use an FAC rate based upon a base fuel cost of 27.25 mills per kWh.

6. The PJM billing line items included by Kentucky Power in its FAC calculation are approved, subject to the limitation of power purchase recovery to Kentucky Power's "peaking unit equivalent."

7. Kentucky Power shall make no change to the PJM billing line items included in the calculation of its FAC without Commission authorization.

8. Within 20 days of the date of this Order, Kentucky Power shall file, using the Commission's electronic Tariff Filing System, its revised tariff sheets with the Commission setting out the rates approved herein and reflecting that they were approved pursuant to this Order.

By the Commission



ATTEST:

Executive Director

A handwritten signature in blue ink, consisting of several loops and flourishes, positioned above a horizontal line.

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2014-00450 DATED **AUG 11 2015**

The following rates and charges are prescribed for the customers in the area served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

TARIFF R.S.
RESIDENTIAL SERVICE

Energy Charge per kWh	\$	.08795
Storage Water Heating Provision - Per kWh	\$	.05094
Load Management Water Heating Provision - Per kWh	\$	.05094

TARIFF R.S.-L.M.-T.O.D.
RESIDENTIAL SERVICE LOAD MANAGEMENT TIME-OF-DAY

Energy Charge per kWh:		
All kWh used during on-peak billing period	\$	.13394
All kWh used during off-peak billing period	\$	.05094

TARIFF R.S.-T.O.D.
RESIDENTIAL SERVICE TIME-OF-DAY

Energy Charge per kWh:		
All kWh used during on-peak billing period	\$	.13394
All kWh used during off-peak billing period	\$	.05094

TARIFF R.S.-T.O.D. 2
EXPERIMENTAL RESIDENTIAL SERVICE TIME-OF-DAY 2

Energy Charge per kWh:		
All kWh used during summer on-peak billing period	\$	.10718
All kWh used during winter on-peak billing period	\$	.11894
All kWh used during off-peak billing period	\$	.07895

S.G.S.
SMALL GENERAL SERVICE

Energy Charge per kWh:		
First 500 kWh per month	\$	.11711
All over 500 kWh per month	\$	.07267

S.G.S.
SMALL GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Energy Charge per kWh:		
All kWh used during on-peak billing period	\$	.14360
All kWh used during off-peak billing period	\$	.05100

S.G.S.
SMALL GENERAL SERVICE
OPTIONAL UNMETERED SERVICE PROVISION

Energy Charge per kWh:		
First 500 kWh per month	\$	.11711
All over 500 kWh per month	\$	.07267

TARIFF S.G.S.-T.O.D.
SMALL GENERAL SERVICE TIME-OF-DAY

Energy Charge per kWh:		
All kWh used during summer on-peak billing period	\$	.11395
All kWh used during winter on-peak billing period	\$	.12315
All kWh used during off-peak billing period	\$	.08667

M.G.S.
MEDIUM GENERAL SERVICE

Secondary Service Voltage:

Energy Charge per kWh:		
kWh equal to 200 times kW of monthly billing demand	\$	.10198
kWh in excess of 200 times kW of monthly billing demand	\$	.08736

Primary Service Voltage:

Energy Charge per kWh:		
kWh equal to 200 times kW of monthly billing demand	\$	.09357
kWh in excess of 200 times kW of monthly billing demand	\$	.08360

Sub-transmission Service Voltage:

Energy Charge per kWh:

kWh equal to 200 times kW of monthly billing demand	\$	.08634
kWh in excess of 200 times kW of monthly billing demand	\$	.08103

M.G.S.
MEDIUM GENERAL SERVICE
RECREATIONAL LIGHTING SERVICE PROVISION

Energy Charge per kWh	\$.09266
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M.G.S.
MEDIUM GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Energy Charge per kWh:

All kWh used during on-peak billing period	\$	.15955
All kWh used during off-peak billing period	\$	.05341

TARIFF M.G.S.-T.O.D.
MEDIUM GENERAL SERVICE TIME-OF-DAY

Energy Charge per kWh:

All kWh used during on-peak billing period	\$	.15955
All kWh used during off-peak billing period	\$	.05341

L.G.S.
LARGE GENERAL SERVICE

Secondary Service Voltage:

Energy Charge per kWh	\$.07966
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Primary Service Voltage:

Energy Charge per kWh	\$.06809
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Sub-transmission Service Voltage:

Energy Charge per kWh	\$.04791
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Transmission Service Voltage:

Energy Charge per kWh	\$.04699
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L.G.S.
LARGE GENERAL SERVICE
LOAD MANAGEMENT TIME-OF-DAY PROVISION

Energy Charge per kWh:		
All kWh used during on-peak billing period	\$	.13136
All kWh used during off-peak billing period	\$	.05325

L.G.S.
LARGE GENERAL SERVICE TIME-OF-DAY

Secondary Service Voltage:

Energy Charge:		
On-Peak Energy Charge per kWh	\$	.08542
Off-Peak Energy Charge per kWh	\$	.04387

Primary Service Voltage:

Energy Charge:		
On-Peak Energy Charge per kWh	\$	.08241
Off-Peak Energy Charge per kWh	\$	.04266

Sub-transmission Service Voltage:

Energy Charge:		
On-Peak Energy Charge per kWh	\$	.08150
Off-Peak Energy Charge per kWh	\$	.04229

Transmission Service Voltage:

Energy Charge:		
On-Peak Energy Charge per kWh	\$	.08052
Off-Peak Energy Charge per kWh	\$	.04190

TARIFF K-12 SCHOOL
PUBLIC SHCOOL

Secondary Service Voltage:

Energy Charge per kWh	\$.07577
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Primary Service Voltage:

Energy Charge per kWh	\$.06420
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Sub-transmission Service Voltage:

Energy Charge per kWh	\$.04402
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Transmission Service Voltage:
Energy Charge per kWh \$.04310

TARIFF M.W.
MUNICIPAL WATERWORKS

Energy Charge - All kWh per kWh \$.08515

TARIFF I.G.S.
INDUSTRIAL GENERAL SERVICE

Secondary Service Voltage:
Energy Charge per kWh \$.03242

Primary Service Voltage:
Energy Charge per kWh \$.03126

Sub-transmission Service Voltage:
Energy Charge per kWh \$.03090

Transmission Service Voltage:
Energy Charge per kWh \$.03052

TARIFF O.L.
OUTDOOR LIGHTING

OVERHEAD LIGHTING SERVICE

High Pressure Sodium per Lamp:
100 Watts (9,500 Lumens) \$ 9.30
150 Watts (16,000 Lumens) \$ 10.58
200 Watts (22,000 Lumens) \$ 12.30
250 Watts (28,000 Lumens) \$ 17.63
400 Watts (50,000 Lumens) \$ 19.01
Mercury Vapor per Lamp:
175 Watts (7,000 Lumens) \$ 10.47
400 Watts (20,000 Lumens) \$ 18.07

POST-TOP LIGHTING SERVICE

High Pressure Sodium per Lamp:
100 Watts (9,500 Lumens) \$ 14.10
150 Watts (16,000 Lumens) \$ 23.13
100 Watts Shoe Box (9,500 Lumens) \$ 32.85
250 Watts Shoe Box (28,000 Lumens) \$ 25.83

400 Watts Shoe Box (50,000 Lumens)	\$	42.96
Mercury Vapor per Lamp:		
175 Watts (7,000 Lumens)	\$	12.02

FLOOD LIGHTING SERVICE

High Pressure Sodium per Lamp:		
200 Watts (22,000 Lumens)	\$	14.40
400 Watts (50,000 Lumens)	\$	20.16
Metal Halide		
250 Watts (20,500 Lumens)	\$	17.88
400 Watts (36,000 Lumens)	\$	22.57
1,000 Watts (110,000 Lumens)	\$	41.06
250 Watts Mongoose (19,000 Lumens)	\$	24.63
400 Watts Mongoose (40,000 Lumens)	\$	29.42

TARIFF S.L.
STREET LIGHTING

Rate per Lamp:

Overhead Service on Existing Distribution Poles

High Pressure Sodium		
100 Watts (9,500 Lumens)	\$	7.80
150 Watts (16,000 Lumens)	\$	8.88
200 Watts (22,000 Lumens)	\$	10.70
400 Watts (50,000 Lumens)	\$	15.96

Service on New Wood Distribution Poles

High Pressure Sodium		
100 Watts (9,500 Lumens)	\$	11.05
150 Watts (16,000 Lumens)	\$	12.23
200 Watts (22,000 Lumens)	\$	14.15
400 Watts (50,000 Lumens)	\$	19.76

Service on New Metal or Concrete Poles

High Pressure Sodium		
100 Watts (9,500 Lumens)	\$	20.40
150 Watts (16,000 Lumens)	\$	21.38
200 Watts (22,000 Lumens)	\$	27.20
400 Watts (50,000 Lumens)	\$	29.46

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